

**GARRARD COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2015**

TABLE OF CONTENTS

Independent Auditor's Report	1-3
Management Discussion and Analysis	4-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Notes to Basic Financial Statements	21-41
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	42
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	43
Schedule of District's Proportionate Share of Net Pension Liability – Kentucky Teachers' Retirement System	44
Schedule of District's Proportionate Share of Net Pension Liability – County Employees Retirement System	45

TABLE OF CONTENTS (CONTINUED)

Notes to Required Supplementary Information – District’s Proportionate Share of Net Pension Liabilities	46-47
Other Supplementary Information:	
Combining Statement – Non-Major Funds:	
Combining Balance Sheet – Non-Major Governmental Funds	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	49
Combining Statement of Revenues, Expenditures and Fund Balances – Agency Funds	50
Statement of Receipts, Disbursements and Fund Balance – High School Activity Fund	51
Schedule of Expenditures of Federal Awards	52
Notes to Schedule of Expenditures of Federal Awards	53
Schedule of Findings and Questioned Costs	54
Schedule of Prior Year Audit Findings	55
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56-57
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	58-59
Management Letter Comments	60-61
Letter to Those Charged with Governance	62-64

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
Fax (270) 692-2101

Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

October 16, 2015

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Garrard County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Garrard County School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, the Garrard County School District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedules of district's proportionate share of net pension liabilities on Pages 4 through 10 and 42 through 45. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Garrard County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2015, on our consideration of Garrard County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garrard County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

GARRARD COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015

As management of the Garrard County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- We continue to strive to provide a safe, productive teaching and learning environment for the teachers and students of Garrard County. Under the watch of Superintendent Paul Mullins, over the past two years, we have pushed to provide the necessary programs and instruction to ensure every student is college and career ready before they graduate and secure recognition for the Garrard County School District as a distinguished school district. We continue to look for the best possible way to allocate resources provided to the school district to produce the highest attainable results. We also continue our work to improve areas of non-instruction such as transportation, maintenance and food service, which play a very important role in the school day for all employees and students.
- For fiscal year 2016 and beyond, the District is working to initiate an energy savings program, which will allow us to reduce the amount of energy consumed in each of the buildings. Items such as control systems, new lighting, improved efficiency of heating and air units, plumbing fixtures and other items are being evaluated for the buildings in the District to aid in reducing costs for utilities, allowing us to reinvest these savings back into more important areas.
- The District's financial statements for fiscal year 2015 have been substantially impacted by new reporting requirements for school districts. Under the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions), districts are now required to report a liability on its financial statements for its proportionate share of the net pension liability for the retirement system. At June 30, 2015, the District's proportionate share of the CERS net pension liability equals \$4,353,000.
- The District refinanced two bond series during the fiscal year (Series 2004 and Series 2007B). This produced a savings to the district of \$537,000 over the remaining life of the new bond series (School Building Refunding Revenue Bonds, Series 2015).
- The General Fund's beginning fund balance was \$1.77 million. The ending fund balance was \$706,000. General fund revenues showed an increase of \$572,400 and expenditures showed an increase of \$490,800, as compared with the prior year. The total governmental fund balance for the district at June 30, 2015 was \$1,351,936.
- The General Fund transferred \$53,729 to the Special Revenue Fund for the technology grant match and \$42,006 for operations, \$287,406 to the Debt Service Fund for KISTA debt service payments on prior bus purchases and the payoff of a note used for athletic field lighting.

- The District had \$26.63 million in revenue and \$27.16 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total debt service payments, including principal and interest, for fiscal year 2015 were \$11,815,682. This included the payoff of two bond series through refinancing, which provided a savings to the district..
- The District's total net position decreased \$5,023,510 to \$8,526,680. Current assets decreased \$962,157, non-current assets decreased \$1,279,977 and total liabilities increased \$3,534,494. These changes are largely attributable to GASB 68 requirements for reporting net pension liability, deferred inflows and deferred outflows.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements - The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 - 12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our adult education and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 41 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$8,526,680 as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2015 and June 30, 2014

A comparison of June 30, 2015 and June 30, 2014 government wide net position is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 2,101,502	\$ 3,005,368	\$ 38,827	\$ 97,118	\$ 2,140,329	\$ 3,102,486
Capital Assets	<u>37,951,483</u>	<u>39,252,912</u>	<u>40,605</u>	<u>19,153</u>	<u>37,992,088</u>	<u>39,272,065</u>
Total Assets	<u>40,052,985</u>	<u>42,258,280</u>	<u>79,432</u>	<u>116,271</u>	<u>40,132,417</u>	<u>42,374,551</u>
Deferred Outflows	<u>1,417,211</u>	<u>178,093</u>	<u>-</u>	<u>-</u>	<u>1,417,211</u>	<u>178,093</u>
Total Assets & Def Outflows	<u>41,470,196</u>	<u>42,436,373</u>	<u>79,432</u>	<u>116,271</u>	<u>41,549,628</u>	<u>42,552,644</u>
Current Liabilities	2,531,999	2,526,705	2,728	5,149	2,534,727	2,531,854
Non-Current Liabilities	<u>30,002,221</u>	<u>26,470,600</u>	<u>-</u>	<u>-</u>	<u>30,002,221</u>	<u>26,470,600</u>
Total Liabilities	<u>32,534,220</u>	<u>28,997,305</u>	<u>2,728</u>	<u>5,149</u>	<u>32,536,948</u>	<u>29,002,454</u>
Deferred Inflows	<u>486,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486,000</u>	<u>-</u>
Total Liab & Def Inflows	<u>33,020,220</u>	<u>28,997,305</u>	<u>2,728</u>	<u>5,149</u>	<u>33,022,948</u>	<u>29,002,454</u>

Net Position

Investment in capital assets

(net of related debt)	11,748,793	12,158,241	40,605	19,153	11,789,398	12,177,394
Restricted	738,120	497,887	36,099	91,969	774,219	589,856
Unrestricted	(4,036,937)	782,940	-	-	(4,036,937)	782,940
Total Net Position	\$ 8,449,776	\$ 13,439,068	\$ 76,704	\$ 111,122	\$ 8,526,680	\$ 13,550,190

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
REVENUES						
Program revenues						
Charges for services	\$ 4,200	\$ 51,077	\$ 449,615	\$ 412,262	\$ 453,815	\$ 463,339
Operating grants and contributions	2,750,291	2,832,651	1,233,158	1,184,768	3,983,449	4,017,419
Capital grants	52,474	60,796			52,474	60,796
General revenues						
Taxes	6,155,562	6,275,002			6,155,562	6,275,002
Investment earnings	22,601	,50,279	38	658	22,639	50,937
State and formula grants	15,649,040	14,835,109			15,649,040	14,835,109
Miscellaneous	310,138	386,401			310,138	386,401
Total revenues	24,944,306	24,491,315	1,682,811	1,597,688	26,627,117	26,089,003
EXPENSES						
Program Activities						
Instructional	16,015,286	14,989,326			16,015,286	14,989,326
Student support	807,364	963,949			807,364	963,949
Instructional staff Support	616,804	597,410			616,804	597,410
District administrative support	934,994	825,413			934,994	825,413
School administrative support	1,254,757	1,173,689			1,254,757	1,173,689
Business support	573,656	431,251			573,656	431,251
Plant operations and maintenance	2,182,454	2,341,248			2,182,454	2,341,248
Student transportation	1,967,827	2,118,954			1,967,827	2,118,954
Community service activities	160,478	157,072			160,478	157,072
Interest costs	928,778	1,063,711			928,778	1,063,711
Business-type Activities						
Food service			1,702,059	1,611,115	1,702,059	1,611,115
Adult education			15,170	9,907	15,170	9,907
Total expenses	25,442,398	24,662,023	1,717,229	1,621,022	27,159,627	26,283,045
Change in net position	\$ (498,092)	\$ (170,708)	\$ (34,418)	\$ (23,334)	\$ (532,510)	\$ (194,042)

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2015 and 2014 were \$4,461,570 and \$3,987,552, respectively.

Governmental Activities

For the governmental program expenses instructional expenses comprise 62.9% of total expenses, support services equate to 33.5%, and interest and other expenses make up the remaining 3.6% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of Activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (state entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Instructional	\$ 16,015,286	\$ 14,989,326	\$ 13,635,574	\$ 12,524,031
Support Services	8,337,856	8,451,914	8,115,910	8,033,481
Other	160,478	157,072	7,645	157,072
Interest Costs	<u>928,778</u>	<u>1,063,711</u>	<u>876,304</u>	<u>1,002,915</u>
Total Expenses	<u>\$ 25,442,398</u>	<u>\$ 24,662,023</u>	<u>\$ 22,635,433</u>	<u>\$ 21,717,499</u>

Business-Type Activities

The business type activities at the District are food service and community education. These programs had total revenues of \$1,682,811 and expenses of \$1,717,229 for fiscal year 2015. These revenues were made up of \$449,615 charges for services \$1,233,158 federal and state operating grants and \$38 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2015 were \$24,939,762 and expenditures were \$35,099,325. Other financing sources included proceeds from the bond refunding issue and loss compensation totaling \$9,349,544.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$18,465,326 with actual results being \$19,488,364. Budgeted expenditures were \$20,032,958 compared to actual expenditures of \$20,549,495. The most significant cause of the variance between budget and actual was the tax revenue being \$561,371 and intergovernmental revenues being \$437,906 higher than budgeted coupled with instructional expenses being \$805,530 higher than budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2014-2015 with a 2% contingency. The District has adopted a budget for 2015-2016 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees decreased for FY 2015 from 18.89% to 17.67%. The Kentucky Teachers Retirement mandated an increase contribution from 1.50% to 2.25% on all employees while the federal grants matching percentage increased to 15.355%.

The SEEK guaranteed base funding has increased from \$3,911 in FY 2014-2015 to \$3,981 per pupil in FY 2015-2016. The district has experienced some growth in the student population in FY 2014-2015 and FY 2015-2016, which should boost the SEEK funding to the district.

In the current fiscal year, the district continues to fund certain facility improvements throughout the district. These projects include painting, parking lot sealing and striping, HVAC maintenance and improvements, and other miscellaneous facility improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the District had invested \$37,992,088 in a broad range of capital assets, net of accumulated depreciation, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,279,977. Depreciation expense for the year was \$1,516,184 and capital additions were \$243,645.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2015 and 2014.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 608,830	\$ 608,830	\$ -	\$ -	\$ 608,830	\$ 608,830
Land Improvements	590,575	632,031	-	-	590,575	632,031
Buildings and Improvemen	35,095,611	36,042,374	-	-	35,095,611	36,042,374
Technology	42,481	170,864	1,052	2,288	43,533	173,152
Vehicles	1,259,747	1,412,089	-	-	1,259,747	1,412,089
General Equipment	354,239	386,724	39,553	16,865	393,792	403,589
Construction in Progress	-	-	-	-	-	-
Total	<u>\$ 37,951,483</u>	<u>\$ 39,252,912</u>	<u>\$ 40,605</u>	<u>\$ 19,153</u>	<u>\$ 37,992,088</u>	<u>\$ 39,272,065</u>

The table below shows the changes in capital assets for fiscal years ended June 30, 2015 and 2014.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Beginning Balance	\$ 39,252,912	\$ 39,679,730	\$ 19,153	\$ 24,837	\$ 39,272,065	\$ 39,704,567
Additions	214,755	1,086,593	28,890	-	243,645	1,086,593
Retirements	-	(1,470)	-	-	-	(1,470)
Depreciation	<u>(1,516,184)</u>	<u>(1,511,941)</u>	<u>(7,439)</u>	<u>(5,684)</u>	<u>(1,523,623)</u>	<u>(1,517,625)</u>
Ending Balance	<u>\$ 37,951,483</u>	<u>\$ 39,252,912</u>	<u>\$ 40,605</u>	<u>\$ 19,153</u>	<u>\$ 37,992,088</u>	<u>\$ 39,272,065</u>

Long-Term Debt

At year-end the School District had \$26,098,432 in bonds outstanding, \$104,258 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2015 was \$9,961,530 and capital lease obligation principal paid was \$26,451. A total of \$1,606,839 is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	1,497,458	(9,502)	1,487,956
Accounts Receivable:			
Taxes - Current	98,873		98,873
Taxes - Delinquent	17,257		17,257
Accounts	2,862	19,825	22,687
Intergovernmental - State	150,741		150,741
Intergovernmental - Federal	334,311		334,311
Inventories for Consumption		28,504	28,504
Total Current Assets	2,101,502	38,827	2,140,329
Noncurrent Assets - Note F			
Land	608,830		608,830
Buildings & Improvements	49,140,647		49,140,647
Furniture & Equipment	6,122,145	419,637	6,541,782
Less: Accumulated Depreciation	(17,920,139)	(379,032)	(18,299,171)
Total Noncurrent Assets	37,951,483	40,605	37,992,088
TOTAL ASSETS	40,052,985	79,432	40,132,417
Deferred Outflows Related to Pensions	562,130		562,130
Deferred Outflows Related to Advanced Bond Refundings	855,081		855,081
TOTAL ASSETS AND DEFERRED OUTFLOWS	41,470,196	79,432	41,549,628
LIABILITIES:			
Current Liabilities:			
Accounts Payable	71,783	2,728	74,511
Accrued Salaries & Sick Leave - Note A	286,792		286,792
Advances from Grantors	390,992		390,992
KSBIT Assessment	19,777		19,777
Bond Obligations - Note D	1,579,616		1,579,616
Capital Lease Obligation - Note E	27,223		27,223
Accrued Interest Payable	155,816		155,816
Total Current Liabilities	2,531,999	2,728	2,534,727
Noncurrent Liabilities:			
Bond Obligations - Note D	24,518,816		24,518,816
Capital Lease Obligation - Note E	77,035		77,035
KSBIT Assessment - Note R	98,881		98,881
Net Pension Liability	4,353,000		4,353,000
Accrued Sick Leave - Note A	954,489		954,489
Total Noncurrent Liabilities	30,002,221		30,002,221
TOTAL LIABILITIES	32,534,220	2,728	32,536,948
Deferred Inflows Related to Pensions	486,000		486,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	33,020,220	2,728	33,022,948
NET POSITION:			
Net Investment in Capital Assets	11,748,793	40,605	11,789,398
Restricted for:			
Capital Projects	588,080		588,080
Encumbrances	92,319		92,319
School Activities	57,660		57,660
Other Purposes	61	36,099	36,160
Unrestricted	(4,036,937)		(4,036,937)
TOTAL NET POSITION	8,449,976	76,704	8,526,680
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	41,470,196	79,432	41,549,628

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	16,015,286	4,200	2,375,512		(13,635,574)		(13,635,574)
Support Services:							
Student Support Services	807,364		19,278		(788,086)		(788,086)
Staff Support Services	616,804		93,993		(522,811)		(522,811)
District Administration	934,994				(934,994)		(934,994)
School Administration	1,254,757		108,675		(1,146,082)		(1,146,082)
Business Support Services	573,656				(573,656)		(573,656)
Plant Operation & Maintenance	2,182,454				(2,182,454)		(2,182,454)
Student Transportation	1,967,827				(1,967,827)		(1,967,827)
Community Service Operations	160,478		152,833		(7,645)		(7,645)
Interest on Long-Term Debt	928,778			52,474	(876,304)		(876,304)
TOTAL GOVERNMENTAL ACTIVITIES	<u>25,442,398</u>	<u>4,200</u>	<u>2,750,291</u>	<u>52,474</u>	<u>(22,635,433)</u>		<u>(22,635,433)</u>
BUSINESS-TYPE ACTIVITIES:							
Adult Education	15,170	15,753				583	583
Food Service	1,702,059	433,862	1,233,158			(35,039)	(35,039)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>1,717,229</u>	<u>449,615</u>	<u>1,233,158</u>	<u>0</u>	<u>0</u>	<u>(34,456)</u>	<u>(34,456)</u>
TOTAL SCHOOL DISTRICT	<u>27,159,627</u>	<u>453,815</u>	<u>3,983,449</u>	<u>52,474</u>	<u>(22,635,433)</u>	<u>(34,456)</u>	<u>(22,669,889)</u>
GENERAL REVENUES:							
Taxes:							
Property Taxes					4,753,858		4,753,858
Motor Vehicle Taxes					620,622		620,622
Utility Taxes					769,019		769,019
Other Taxes					12,063		12,063
State Aid - Formula Grants					15,649,040		15,649,040
Investment Earnings					22,601	38	22,639
Miscellaneous					305,594		305,594
SPECIAL ITEMS:							
Loss Compensation					4,544		4,544
TOTAL GENERAL & SPECIAL					<u>22,137,341</u>	<u>38</u>	<u>22,137,379</u>
CHANGE IN NET POSITION					(498,092)	(34,418)	(532,510)
NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE S					<u>8,948,068</u>	<u>111,122</u>	<u>9,059,190</u>
NET POSITION - ENDING					<u>8,449,976</u>	<u>76,704</u>	<u>8,526,680</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	920,720	(69,063)	61	645,740	1,497,458
Accounts Receivable:					
Taxes - Current	98,873				98,873
Taxes - Delinquent	17,257				17,257
Accounts	2,862				2,862
Intergovernmental - State		150,741			150,741
Intergovernmental - Federal		334,311			334,311
TOTAL ASSETS	<u>1,039,712</u>	<u>415,989</u>	<u>61</u>	<u>645,740</u>	<u>2,101,502</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	46,786	24,997			71,783
Accrued Salaries & Sick Leave	286,791				286,791
Advances from Grantors		390,992			390,992
Total Liabilities	<u>333,577</u>	<u>415,989</u>	<u>0</u>	<u>0</u>	<u>749,566</u>
Fund Balance:					
Restricted for:					
School Activities				57,660	57,660
Capital Projects				588,080	588,080
Debt Service			61		61
Assigned:					
Accrued Sick Leave	954,489				954,489
Purchase Obligations	92,319				92,319
Unassigned	(340,673)				(340,673)
Total Fund Balance	<u>706,135</u>	<u>0</u>	<u>61</u>	<u>645,740</u>	<u>1,351,936</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>1,039,712</u>	<u>415,989</u>	<u>61</u>	<u>645,740</u>	<u>2,101,502</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		1,351,936
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	55,871,622	
Accumulated Depreciation	<u>(17,920,139)</u>	37,951,483
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		855,081
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		562,130
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(26,098,433)	
KSBIT Assessment	(118,658)	
Capital Lease Obligation	(104,258)	
Accrued Interest on Bonds	(155,816)	
Net Pension Liability	(4,353,000)	
Accrued Sick Leave	<u>(954,489)</u>	(31,784,654)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(486,000)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>8,449,976</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property Taxes	3,477,667			1,276,191	4,753,858
Motor Vehicle Taxes	620,622				620,622
Utility Taxes	769,019				769,019
Other Taxes	12,063				12,063
Earnings on Investments	20,815	67	61	1,658	22,601
Intergovernmental - State	14,410,732	736,744	231,404	1,059,408	16,438,288
Intergovernmental - Federal	36,095	1,977,422			2,013,517
Other Sources	136,807	77,891		95,096	309,794
TOTAL REVENUES	19,483,820	2,792,124	231,465	2,432,353	24,939,762
EXPENDITURES:					
Instructional	12,361,427	2,494,334		30,613	14,886,374
Support Services:					
Student Support Services	775,094	20,242		196	795,532
Staff Support Services	498,733	98,694		6,543	603,970
District Administration	900,699				900,699
School Administration	1,154,066	114,111			1,268,177
Business Support Services	423,198		191,994		615,192
Plant Operation & Maintenance	2,171,884				2,171,884
Student Transportation	1,881,253			84	1,881,337
Community Service Operations		160,478			160,478
Debt Service:					
Principal			10,236,980		10,236,980
Interest			1,578,702		1,578,702
TOTAL EXPENDITURES	20,166,354	2,887,859	12,007,676	37,436	35,099,325
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(682,534)	(95,735)	(11,776,211)	2,394,917	(10,159,563)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds			9,345,000		9,345,000
Loss Compensation	4,544				4,544
Operating Transfers In - Note N		95,735	2,431,164		2,526,899
Operating Transfers Out - Note N	(383,141)			(2,143,758)	(2,526,899)
TOTAL OTHER FINANCING SOURCES	(378,597)	95,735	11,776,164	(2,143,758)	9,349,544
NET CHANGE IN FUND BALANCES	(1,061,131)	0	(47)	251,159	(810,019)
FUND BALANCES - BEGINNING	1,767,266	0	108	394,581	2,161,955
FUND BALANCES - ENDING	706,135	0	61	645,740	1,351,936

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS (810,019)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.

Depreciation Expense	(1,516,184)	
Capital Outlays	214,755	
	(1,301,429)	(1,301,429)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal Paid	10,236,980	
Proceeds from Note Payable	(9,345,000)	
	891,980	891,980

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Amortization-Deferred Outflows on Advanced Refundings of Bonds	(59,574)	
District Pension Contributions	562,130	
Cost of Benefits Earned net of Employee Contributions	(348,000)	
Deferred Outflows from Advanced Bond Refundings	736,562	
Accrued Interest Payable	(27,064)	
KSBIT Assessment	39,552	
Accrued Sick Leave	(182,230)	
	721,376	721,376

CHANGES - NET POSITION GOVERNMENTAL FUNDS (498,092)

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	(15,176)	5,674	(9,502)
Accounts Receivable	19,825		19,825
Inventories for Consumption	28,504		28,504
Total Current Assets	33,153	5,674	38,827
Noncurrent Assets:			
Furniture & Equipment	419,637		419,637
Less: Accumulated Depreciation	(379,032)		(379,032)
Total Noncurrent Assets	40,605	0	40,605
TOTAL ASSETS	73,758	5,674	79,432
LIABILITIES:			
Current Liabilities:			
Account Payable	2,728		2,728
Total Current Liabilities	2,728	0	2,728
Net Position:			
Net Investment in Capital Assets	40,605		40,605
Restricted	30,425	5,674	36,099
Total Net Position	71,030	5,674	76,704
TOTAL LIABILITIES AND NET POSITION	73,758	5,674	79,432

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	433,862		433,862
Other Operating Revenues		15,753	15,753
TOTAL OPERATING REVENUES	433,862	15,753	449,615
OPERATING EXPENSES:			
Salaries & Benefits	675,516	3,105	678,621
Contract Services	30,681	11,231	41,912
Materials & Supplies	983,513	834	984,347
Depreciation - Note F	7,439		7,439
Other Operating Expenses	4,910		4,910
TOTAL OPERATING EXPENSES	1,702,059	15,170	1,717,229
OPERATING INCOME(LOSS)	(1,268,197)	583	(1,267,614)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	1,051,333		1,051,333
State Grants	109,756		109,756
Donated Commodities	72,069		72,069
Interest Income	38		38
TOTAL NONOPERATING REVENUE	1,233,196	0	1,233,196
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(35,001)	583	(34,418)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSTION	(35,001)	583	(34,418)
TOTAL NET POSITION - BEGINNING	106,031	5,091	111,122
TOTAL NET POSITION - ENDING	71,030	5,674	76,704

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Operating Revenue	433,862	15,753	449,615
Cash Paid to/for:			
Employees	(580,117)	(3,105)	(583,222)
Supplies	(919,879)	(834)	(920,713)
Other Activities	(35,591)	(11,231)	(46,822)
Net Cash Provided (Used) by Operating Activities	(1,101,725)	583	(1,101,142)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Federal Grants	1,064,526		1,064,526
State Grants	14,357		14,357
Net Cash Provided by Non-Capital and Related Financing Activities	1,078,883	0	1,078,883
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Fixed Assets	(28,890)		(28,890)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of Interest Income	38	0	38
Net Increase in Cash and Cash Equivalents	(51,694)	583	(51,111)
Balances, Beginning of Year	36,518	5,091	41,609
Balances, End of Year	(15,176)	5,674	(9,502)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(1,268,197)	583	(1,267,614)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	7,439		7,439
State On-Behalf Payments	95,399		95,399
Donated Commodities	72,069		72,069
Change in Assets and Liabilities:			
Inventory	(6,014)		(6,014)
Accounts Payable	(2,421)		(2,421)
Net Cash Provided (Used) by Operating Activities	(1,101,725)	583	(1,101,142)
Schedule of Non-Cash Transactions:			
Donated Commodities	72,069	0	72,069
State On-Behalf Payments	95,399	0	95,399

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	295,533
TOTAL ASSETS	<u>295,533</u>
LIABILITIES:	
Due to Other	70,868
Due to Student Groups	224,665
TOTAL LIABILITIES	<u>295,533</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Garrard County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Garrard County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Garrard County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Garrard County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Garrard County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue on the fund financial statement and advances from grantors on the government wide financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as advances from grantors.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$0.64 per \$100 valuation for real property, \$0.64 per \$100 valuation for business personal property, and \$0.551 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as committed fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Special Revenue

Revenue Source

State, Local and Federal Grants

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Changes in Accounting Principle

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. See Note H for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,783,489. Of the total cash balance, \$320,929 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2015, consisted of the following:

	Bank Balance	Book Balance
Whitaker Bank	70,868	70,868
Farmers National Bank	2,556,224	1,712,560
US Bank	<u>92</u>	<u>61</u>
Total Cash and Cash Equivalents	<u>2,627,184</u>	<u>1,783,489</u>

Breakdown per financial statements:

Governmental Funds	1,497,458
Proprietary Funds	<u>(9,502)</u>
Subtotal	1,487,956
Agency Funds	<u>295,533</u>
Total Cash and Cash Equivalents – All Funds	<u>1,783,489</u>

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Garrard County School District Finance Corporation aggregating \$41,530,000.

The original amount of each issue and interest rates are summarized below:

2003	3,225,000	2.00% - 3.30%
2005	880,000	3.90% - 4.10%
2007A	9,975,000	3.40% - 3.80%
2007B	9,975,000	2.00% - 4.00%
2009	4,300,000	3.40% - 4.10%
2010	3,830,000	1.00% - 3.00%
2015	9,345,000	2.00% - 2.50%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Garrard County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

On April 15, 2015, the District issued \$9,345,000 in Refunding Revenue Bonds with an average interest rate of 2.25 percent to advance refund \$555,000 of outstanding 2004 Bonds and \$7,860,000 of outstanding 2007B Bonds. The net proceeds of \$9,151,562 (after \$77,225 in bond issuance costs, \$114,769 in bond discount and \$1,444 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities which were deposited in an irrevocable trust to call the bonds. The refunding resulted in a net present value benefit of \$466,696.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2015, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2015-16	1,579,616	787,708	216,539	2,150,785
2016-17	1,629,135	735,785	215,832	2,149,089
2017-18	1,674,681	686,953	215,870	2,145,765
2018-19	1,700,000	635,229	190,228	2,145,001
2019-20	1,755,000	578,744	190,006	2,143,737
2020-21	1,815,000	522,421	189,984	2,147,437
2021-22	1,820,000	460,706	102,285	2,178,421
2022-23	1,870,000	410,390	102,284	2,178,106
2023-24	1,925,000	358,398	102,284	2,181,113
2024-25	1,980,000	303,960	102,285	2,181,675
2025-26	2,030,000	246,311	92,156	2,184,155
2026-27	2,055,000	186,499	53,947	2,187,552
2027-28	2,110,000	124,161	46,691	2,187,471
2028-29	<u>2,155,000</u>	<u>88,355</u>	<u>19,659</u>	<u>2,223,695</u>
	<u>26,098,432</u>	<u>6,125,620</u>	<u>1,840,049</u>	<u>30,384,003</u>

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bond Payable	26,714,962	9,345,000	9,961,530	26,098,432	1,579,616
Capital Lease Obligations	130,709	0	26,451	104,258	27,223
Note Payable	249,000	0	249,000	0	0
KSBIT Assessment	158,210	0	39,552	118,658	19,777
Accrued Sick Leave	<u>1,083,563</u>	<u>179,522</u>	<u>91,325</u>	<u>1,171,760</u>	<u>217,271</u>
Long-Term Liabilities	<u>28,336,444</u>	<u>9,524,522</u>	<u>10,367,858</u>	<u>27,493,108</u>	<u>1,843,115</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2015.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2015</u>
Buses	261,708
Accumulated Amortization	(173,974)
	<u>87,734</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2015:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2016	30,965
2017	30,936
2018	25,898
2019	<u>25,878</u>
Net minimum lease payments	113,677
Amount representing interest	<u>(9,419)</u>
Present value of net minimum lease payments	<u>104,258</u>

Interest rates on capitalized leases vary from 3.30% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	608,830			608,830
Depreciable Assets:				
Land Improvements	1,586,524	20,009		1,606,533
Buildings & Building Improvements	47,459,114	75,000		47,534,114
Technology Equipment	1,582,534			1,582,534
Vehicles	3,582,250	89,396		3,671,646
General Equipment	837,615	30,350		867,965
TOTAL AT HISTORICAL COST	55,656,867	214,755	0	55,871,622
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	954,493	61,465		1,015,958
Buildings & Building Improvements	11,416,740	1,021,763		12,438,503
Technology Equipment	1,411,670	128,383		1,540,053
Vehicles	2,170,161	241,737		2,411,899
General Equipment	450,891	62,836		513,726
TOTAL ACCUMULATED DEPRECIATION	16,403,955	1,516,184	0	17,920,139
GOVERNMENTAL ACTIVITIES CAPITAL NET	39,252,912	(1,301,426)	0	37,951,483
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	6,293			6,293
Vehicles	13,345			13,345
Food Service Equipment	371,109	28,890		399,999
TOTALS AT HISTORICAL COST	390,747	28,890	0	419,637
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	4,005	1,236		5,241
Vehicles	13,345			13,345
Food Service Equipment	354,244	6,203		360,446
TOTAL ACCUMULATED DEPRECIATION	371,594	7,439	0	379,032
PROPRIETARY ACTIVITIES CAPITAL NET	19,153	21,451	0	40,605
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,220,860
Student Support Services				21,377
Staff Support Services				18,705
District Administration				39,190
School Administration				486
Business Support Services				3,824
Plant Operation & Maintenance				20,298
Student Transportation				191,444
TOTAL				1,516,184

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2015, as follows:

<u>Year Ending</u>	
June 30, 2016	63,945
June 30, 2015	<u>63,945</u>
Total Lease Commitment	<u>127,890</u>

NOTE H – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 4,353,000
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>69,050,520</u>
	<u>\$ 73,403,520</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.134178% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$348,000 related to CERS and \$1,627,196 related to KTRS. The District also recognized revenue of \$1,627,196 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	486,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>562,130</u>	<u>-</u>
Total	<u>\$ 562,130</u>	<u>\$ 486,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

\$562,130 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	Year ended June 30:
2016	97,200
2017	97,200
2018	97,200
2019	97,200
2020	97,200

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	3,791,323	4,353,000	4,914,677
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers' Compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Ohio Casualty Insurance.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	682,534
Special Revenue Fund	95,735
Debt Service	11,776,211
Food Service	35,001

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	53,729
Operating	General	Special Revenue	Operations	42,006
Operating	Building	Debt Service	Debt Service	2,110,605
Operating	General	Debt Service	Debt Service	287,406
Operating	Capital Outlay	Debt Service	Debt Service	<u>33,153</u>
Total Transferred Funds				<u>2,526,899</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2015.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 16, 2015, and there are no other material subsequent events requiring disclosure.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2015 \$4,461,570 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	4,134,767
Food Service Fund	95,399
Debt Service Fund	<u>231,404</u>
Total	<u>4,461,570</u>

NOTE R– KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2015, Garrard County School District's remaining assessment is valued at \$118,658. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2016	19,777
2017	19,777
2018	19,776
2019	19,776
2020	19,776
2021	<u>19,776</u>
Total	<u>118,658</u>

NOTE S – NET POSITION, AS RESTATED

Governmental Accounting Standards Board statement 68 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$4,491,000 to reflect the District's proportionate share of the unfunded pension liability of the County Employee Retirement System.

Beginning Net Position as previously reported on June 30, 2014	\$ 13,439,068
Prior period adjustment – Implementation GASB 68:	
Net Pension Liability (measurement date)	(5,075,856)
Deferred outflows – District's contributions made during fiscal year 2014	<u>584,856</u>
Total prior period adjustment	<u>(4,491,000)</u>
Net Position as restated, July 1, 2014	<u>\$ 8,948,068</u>

REQUIRED SUPPLEMENTARY
INFORMATION

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,318,000	4,318,000	4,879,371	561,371
Other Local Sources	41,000	41,000	20,815	(20,185)
State Sources	13,972,826	13,972,826	14,410,732	437,906
Federal Sources	21,000	21,000	36,095	15,095
Other Sources	112,500	112,500	141,351	28,851
TOTAL REVENUES	18,465,326	18,465,326	19,488,364	1,023,038
EXPENDITURES:				
Instructional	11,555,897	11,555,897	12,361,427	(805,530)
Student Support Services	866,042	866,042	775,094	90,948
Staff Support Services	490,288	490,288	498,733	(8,445)
District Administration	1,015,806	1,015,806	900,699	115,107
School Administration	1,009,890	1,009,890	1,154,066	(144,176)
Business Support Services	376,095	376,095	423,198	(47,103)
Plant Operation & Maintenance	1,873,792	1,873,792	2,171,884	(298,092)
Student Transportation	2,246,635	2,246,635	1,881,253	365,382
Central Office	0	0	0	0
Other	598,513	598,513	383,141	215,372
TOTAL EXPENDITURES	20,032,958	20,032,958	20,549,495	(516,537)
NET CHANGE IN FUND BALANCE	(1,567,632)	(1,567,632)	(1,061,131)	506,501
FUND BALANCES - BEGINNING	1,567,632	1,567,632	1,767,266	0
FUND BALANCES - ENDING	0	0	706,135	506,501

On-behalf payments totaling \$4,134,767 are not budgeted by the Mercer County School District.

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	76,425	76,425	95,802	19,377
State Sources	844,113	844,113	736,744	(107,369)
Federal Sources	1,753,899	1,753,899	1,977,422	223,523
Other Sources	68,100	68,100	77,891	9,791
TOTAL REVENUES	<u>2,742,537</u>	<u>2,742,537</u>	<u>2,887,859</u>	<u>145,322</u>
EXPENDITURES:				
Instructional	2,456,182	2,456,182	2,494,334	(38,152)
Student Support Services	12,785	12,785	20,242	(7,457)
Staff Support Services	116,833	116,833	98,694	18,139
School Administration	0	0	114,111	(114,111)
Plant Operation & Maintenance	0	0	0	0
Community Service Operations	155,736	155,736	160,478	(4,742)
Other	1,001	1,001		1,001
TOTAL EXPENDITURES	<u>2,742,537</u>	<u>2,742,537</u>	<u>2,887,859</u>	<u>(145,322)</u>
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

See accompanying auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>
District's proportion of net pension liability	0.0%
District's proportionate share of the net pension liability	\$ 0
State of Kentucky's share of the net pension liability associated with the District	<u>69,050,520</u>
Total	<u>\$ 69,050,520</u>
District's covered-employee payroll	\$ 10,915,359
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

GARRARD COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>
District's proportion of net pension liability	.134178%
District's proportionate share of the net pension liability	\$ 4,353,000
State of Kentucky's share of the net pension liability associated with the District	<u>0.00</u>
Total	<u>\$ 4,353,000</u>
District's covered-employee payroll	\$ 3,181,268
District's proportionate share of the net pension liability as a percentage of its covered-payroll	136.84%
Plan fiduciary net position as a percentage of the total pension liability	65.96%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

KENTUCKY TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2015 reported in that schedule:

Valuation Date	June 30, 2013
Inflation	3.50 percent
Salary Increases	4.00 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	4.27 Percent
Measurement Date	4.35 Percent
Year FNP is Projected to be Depleted	2036
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	5.16 percent
Measurement Date	5.23 Percent
Post-Retirement Benefit Increases	1.50% annually

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2008, and based on the results of an actuarial study and adopted by the board.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.5 percent, average, including inflation
Investment Rate of Return	7.75 percent, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY INFORMATION

GARRARD COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents	297,059		291,021	57,660	645,740
TOTAL ASSETS	<u>297,059</u>	<u>0</u>	<u>291,021</u>	<u>57,660</u>	<u>645,740</u>
LIABILITIES AND FUND BALANCES:					
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance:					
Restricted for:					
School Activities				57,660	57,660
Capital Projects	297,059		291,021		588,080
Total Fund Balance	<u>297,059</u>	<u>0</u>	<u>291,021</u>	<u>57,660</u>	<u>645,740</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>297,059</u>	<u>0</u>	<u>291,021</u>	<u>57,660</u>	<u>645,740</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Taxes		1,276,191			1,276,191
Earnings from Investments			1,658		1,658
Intergovernmental - State	224,994	834,414			1,059,408
Other Sources				95,096	95,096
TOTAL REVENUES	<u>224,994</u>	<u>2,110,605</u>	<u>1,658</u>	<u>95,096</u>	<u>2,432,353</u>
EXPENDITURES:					
Instructional				30,613	30,613
Support Service:					
Student Support Services				196	196
Staff Support Services				6,543	6,543
Student Transportation				84	84
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>	<u>37,436</u>	<u>37,436</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	224,994	2,110,605	1,658	57,660	2,394,917
OTHER FINANCING SOURCES(USES):					
Operating Transfers In					0
Operating Transfers Out	(33,153)	(2,110,605)			(2,143,758)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(33,153)</u>	<u>(2,110,605)</u>	<u>0</u>	<u>0</u>	<u>(2,143,758)</u>
NET CHANGE IN FUND BALANCES	<u>191,841</u>	<u>0</u>	<u>1,658</u>	<u>57,660</u>	<u>251,159</u>
FUND BALANCES - BEGINNING	<u>105,218</u>	<u>0</u>	<u>289,363</u>	<u>0</u>	<u>394,581</u>
FUND BALANCES - ENDING	<u><u>297,059</u></u>	<u><u>0</u></u>	<u><u>291,021</u></u>	<u><u>57,660</u></u>	<u><u>645,740</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	FUND BALANCE JULY 1, 2014	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2015
Garrard County High School	85,032	388,949	400,372	73,609
Garrard County Middle School	87,182	114,382	109,384	92,180
Camp Dick Robinson Elementary	20,038	88,055	73,820	34,273
Lancaster Elementary	16,824	27,876	33,013	11,687
Paint Lick Elementary	14,641	31,293	33,018	12,916
Total Due to Student Groups	223,717	650,555	649,607	224,665
Other Agency Funds	75,394	2,074	6,600	70,868
Total Activity Funds	299,111	652,629	656,207	295,533

See independent accountant's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	CASH BALANCE JULY 1, 2014	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2015	ACCOUNTS RECEIVABLE JUNE 30, 2015	ACCOUNTS PAYABLE JUNE 30, 2015	FUND BALANCE JUNE 30, 2015
Academic Team	0			0			0
Advanced Foods	74	2,272	2,306	40			40
Advertising	0	2,500	0	2,500			2,500
AG Shop	1			1			1
Americorps	14			14			14
Art	325	160	366	119			119
Art Club	241	110		351			351
Band	3,194	54,804	57,459	539			539
Baseball	8,350	25,878	29,517	4,711			4,711
Beta Club	417	604	621	400			400
Bowling	0	260	260	0			0
Boys Basketball	127	25,709	22,290	3,546			3,546
Boys Golf	2,885	4,168	4,564	2,489			2,489
Boys Soccer	3,922	2,832	4,772	1,982			1,982
Boys Tennis	1,314	1,942	1,901	1,355			1,355
Cheerleaders	1,099	2,662	2,966	795			795
Cross Country	510	659	1,169	0			0
Junior Historians	150	103	42	211			211
District Act. Advertising	0	1,150	1,150	0			0
District Activity Band	0	2,939	2,939	0			0
District Tourney	0	15,558	15,410	148			148
Drama Society	2,383	3,287	3,135	2,535			2,535
Engineering Club	0	445	111	334			334
Fashion	46	783	754	75			75
FBLA	127	1,010	827	310			310
FCA	723	926	837	812			812
FCCLA	337	12,018	12,197	158			158
FEA	291			291			291
FFA	2,470	10,403	10,078	2,795			2,795
Fishing	113	715	465	363			363
FMD	69			69			69
Floral Design	1	1,774	1,580	195			195
Foods Lab	183	106	227	62			62
Football	2,320	29,293	23,992	7,621			7,621
French Club	0	145	55	90			90
GCHS Athletic Director	588			588			588
Ghost Out	172	1,000	1,172	0			0
Girls Basketball	735	24,979	22,046	3,668			3,668
Girls Golf	3			3			3

Girls Soccer	1,475	5,385	4,265	2,595			2,595
Girls Tennis	716	412	759	369			369
Glad Club	0	325	253	72			72
Golden Pride Bank	5,029	12,308	15,074	2,263			2,263
Graduation	88	2,389	2,466	11			11
Greenhouse	1,686	666	470	1,882			1,882
Guidance	928	8,040	7,675	1,293			1,293
ID Badges	0	640	640	0			0
Iyada Club	0	120	0	120			120
Instructional	100	12,904	12,488	516			516
Library	227	1,262	1,489	0			0
National Honor Society	540	386	175	751			751
Newspaper	637			637			637
Office	168	1,048	782	434			434
Parking	303	1,810	2,113	0			0
Project Graduation	342	21,464	21,805	1			1
Prom	2,755	8,142	6,930	3,967			3,967
Science Club	122	530	480	172			172
Senior Trip	0	5,192	5,192	0			0
Shop	344	940	713	571			571
Softball	4,499	18,712	17,895	5,316			5,316
Spanish Club	8	1,002	901	109			109
Student Council	1,401	1,746	1,893	1,254			1,254
Student Funds	777	100	597	280			280
Teacher Vending	39	575	614	0			0
Ticket Revenue	21,100	51,469	70,597	1,972			1,972
Track	428		428	0			0
Trips & Transportation	0	1,110	1,110	0			0
Volleyball	0	11,167	9,577	1,590			1,590
Watershed Grant	554			554			554
Yearbook	7,447	7,573	7,497	7,523			7,523
Young Dems/Reps	135	461	409	187			187
Total All Funds	85,032	409,072	420,495	73,609	0	0	73,609
Interfund Transfers		(20,123)	(20,123)	0	0	0	0
Total	85,032	388,949	400,372	73,609	0	0	73,609

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3104	177,647
Title I - Grants to Local Educational Agencies	84.010	310A	555,833
Title I - Parent Involvement	84.010	3103M	2,021
Title I - Parent Involvement	84.010	3104M	5,120
Title I - Parent Involvement	84.010	310AM	1,351
Title I Cluster			741,972 *
Career & Technical Education	84.048	348A	20,286
Career & Technical Education	84.048	3483A	474
Career & Technical Education	84.048	3484A	1,091
Career & Technical Education Total			21,851
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4012E	705
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014E	113,406
Title II - Part A -Teacher Quality Enhancement Grants	84.367	401A	60,553
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	26,779
Title II - Part A -Teacher Quality Enhancement Grants Total			201,443
Migrant Education - State Grant Program	84.011	311A	65,189
Migrant Education - State Grant Program	84.011	311AS	3,745
Migrant Education - State Grant Program	84.011	3113S	1,375
Migrant Education - State Grant Program	84.011	3114	90
Migrant Education - State Grant Program Total			70,399
IDEA - Special Education - Grants to State	84.027	3373	112
IDEA - Special Education - Grants to State	84.027	3374	170,663
IDEA - Special Education - Grants to State	84.027	337A	351,782
IDEA - Special Education - Preschool Grants	84.173	343A	16,919
IDEA - Special Education - Preschool Grants	84.173	3434	22,124
Special Education Cluster			561,600 *
21st CCLC - Garrard Middle Summer School	84.287	5503Z	7,000
21st CCLC - Garrard Middle Summer School	84.287	5504U	1,526
21st CCLC - Garrard Middle School	84.287	5503U	10,125
21st CCLC - Garrard Middle School	84.287	5503	25,312
21st CCLC - Garrard Middle School	84.287	5504	62,234
21st CCLC Total			106,197
Rural and Low Income Schools	84.358	3503	69
Rural and Low Income Schools	84.358	3504	44,463
Rural and Low Income Schools	84.358	350A	4,757
Rural and Low Income Schools Total			49,289
Gear Up Grant	84.334A	379AG	191,546
Gear Up Grant	84.334A	3794G	36,500
			228,046
Total U.S. Department of Education			1,980,797
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-14	82,663
National School Lunchroom	10.555	7750002-15	671,440
Summer Meal Program	10.559	7690024-14	3,031
Summer Meal Program	10.559	7740023-14	29,279
School Breakfast Program	10.553	7760005-14	57,874
School Breakfast Program	10.553	7760005-15	211,067
Child Nutrition Cluster			1,055,354
Child and Adult Care Food Program	10.558	7790021-15	8,469
Child and Adult Care Food Program	10.558	7800016-15	703
			9,172
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	72,069
Total U.S. Department of Agriculture			1,136,595
Total Federal Financial Assistance			3,117,392

* Tested as major program

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Garrard County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2015

Reference Number 2014-1: Significant Deficiency in Internal Controls

Condition: The District entered into a five year loan with a local lending institution. This type of transaction is prohibited by state law.

Recommendation: When considering an unusual transaction, we recommend District management and finance personnel review the procedures and processes in place to ensure that their consideration of the transaction includes review of all laws related to the potential transaction. This will strengthen the District's ability to prevent noncompliance.

Current Status: The district has implemented procedures to ensure that when considering entering into a non-routine transaction that all avenues of research and review, including getting a legal opinion from the district's legal council, will be performed to ensure the transaction is in compliance with all regulations.

Reference Number 2014-2: Non-compliance with Kentucky Revised Statute Number 160.540

Condition: Kentucky Revised Statute number 160.540 states:

“Any board of education may borrow money on the credit of the board and issue negotiable notes in anticipation of revenues from school taxes and state revenue for the fiscal year in which the money is borrowed, and may pledge the anticipated revenues from state and local sources for the payment of principal and interest on the loan. The rate of interest shall be at a rate or rates or method of determining rates as the board determines. In all cases such loans shall be repaid within the fiscal year in which they are borrowed.”

The District entered into a five year note with First Southern National Bank on May 8, 2014 in the amount of \$249,000 with five annual payments of \$54,203, including interest. The first payment is due May 8, 2015.

Recommendation: Prior to entering into a transaction which is unusual as it relates to the District's normal course of business, we recommend all avenues of research be performed to ensure that the transaction is in compliance with relevant laws and to obtain an opinion on compliance with laws from the District's legal counsel.

Current Status: The district has implemented procedures to ensure that when considering entering into a non-routine transaction that all avenues of research and review will be performed to ensure the transaction is in compliance with all regulations. Additionally, the district has paid the loan off in its entirety during fiscal year 2014-2015 bringing the district to full compliance with the above referenced statute.

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
Fax (270) 692-2101

Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

October 16, 2015

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Garrard County School District's basic financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garrard County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Garrard County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garrard County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garrard County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Garrard County School District in a separate letter dated October 16, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
Fax (270) 692-2101

Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

October 16, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

Report on Compliance for Each Major Federal Program

We have audited the Garrard County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Garrard County School District's major federal programs for the year ended June 30, 2015. Garrard County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contract, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Garrard County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Garrard County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Garrard County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Garrard County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Garrard County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Garrard County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Garrard County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
Fax (270) 692-2101

Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

October 16, 2015

MANAGEMENT LETTER

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

In planning and performing our audit of the financial statements of Garrard County School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendation:

During the course of the audit, we noted that a check was written to a teacher in the amount of \$12,893 from the Garrard County High School Activity Fund – Project Graduation. The check was then cashed in order to give each student fully participating \$100 at the end of the night. Although there was documentation with the students' signatures that the funds were handed out to students, the *Redbook* states that cash awards, gift cards, or prepaid credit cards are disallowed expenditures. We recommended that all school treasurers and sponsors be provided a copy of the *Redbook* and advised to reference it prior to executing unusual transactions. Additionally, we advise that the school treasurers seek guidance from the District Finance Officer when there is a doubt as to whether or not the expenditure is allowable.

Current Year Finding:

No such instances were noted during the course of the current audit.

Prior Year Recommendation:

During the course of the audit, there were two transactions at the high school which did not have signed purchase orders and one that did not have a supporting invoice. We recommend that no purchases be made without an approved purchase order and that no payments be made without the supporting invoice.

Current Year Finding:

No such instances were noted during the course of the current audit.

Management Response:

We will communicate to the school treasurers that they must have proper documentation prior to disbursing funds.

Current Year Recommendation:

During the course of the audit, there was a transaction at the middle school where an umpire was paid from a standard invoice, however, the standard invoice was not signed by the payee as required by the *Redbook*. We recommend that the school personnel responsible for paying athletic officials be made aware of the requirement to get the officials signature on the standard invoice at the time of payment.

Management Response:

We will ensure that all responsible school personnel are made aware of this requirement.

Current Year Recommendation:

During the course of the audit, there was a receipt of funds from students at the high school where the students did not sign the multiple receipt form as required by the *Redbook*. We recommend that all school personnel that are collecting funds from students 3rd grade and above be made aware of the requirement to have the students sign the multiple receipt form at the time the students submit the funds.

Management Response:

We will ensure that all responsible school personnel are made aware of this requirement.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
Fax (270) 692-2101

Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

October 16, 2015

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Garrard County School District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Garrard County School District are described in Note A to the financial statements. As described in Notes A and H to the financial statements, the Garrard County School District changed accounting policies related to accounting and reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Garrard County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Garrard County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information and schedules of district's proportionate share of net pension liabilities on pages 42 through 45, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Garrard County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants